

CITY OF CHEROKEE
INDEPENDENT AUDITORS' REPORTS
PRIMARY GOVERNMENT FINANCIAL STATEMENTS
SUPPLEMENTARY AND OTHER INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2013

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CITY OF CHEROKEE
OFFICIALS

<u>NAME</u>	<u>TITLE</u>	<u>TERM EXPIRES</u>
Mark Murphy	Mayor	January 2014
Mick Mallory	Council Member, Mayor Pro-Tem	January 2014
Dan Morrow	Council Member	January 2014
Chad Brown	Council Member	January 2016
Wayne Pingel	Council Member	January 2016
Jim Peck	Council Member	January 2016
Don Eikmeier	City Administrator	Indefinite
Debra Taylor	City Clerk/Treasurer	Indefinite
M.W. Miller, Jr.	Attorney	Indefinite

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P.O. Box 175
Spencer, Iowa 51301-0175
Phone 712-262-3117
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Milford, Iowa 51351-0187
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INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and
Members of the City Council
City of Cherokee
Cherokee, IA 51012

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, business type activities, each major fund, and the aggregate remaining fund information of the primary government of the City of Cherokee, Iowa, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the basic financial statements of the City's primary government listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the cash basis of accounting described in Note 1. This includes determining the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. This includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting

estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Basis for Adverse Opinion on Aggregate Discretely Presented Component Units

The financial statements referred to above do not include financial data for the City's legally separate component units. Accounting principles for the basis of accounting described in Note 1 require the financial data for the component units to be reported with the financial data of the City's primary government unless the City also issues financial statements for the financial reporting entity that include the financial data for its component units. The City has not issued such reporting entity financial statements. Because of this departure from accounting principles for the basis of accounting described in Note 1, the cash basis net position, revenues, and expenses of the aggregate discretely presented component units would have been reported as \$250,127, \$270,976, and \$353,101, respectively.

Adverse Opinion on Aggregate Discretely Presented Component Units

In our opinion, because of the significance of the matter described in the "Basis for Adverse Opinion on Aggregate Discretely Presented Component Units" paragraph, the financial statements referred to above do not present fairly the financial position of the aggregate discretely presented component units of the City as of June 30, 2013, or the changes in financial position thereof for the year then ended.

Unmodified Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the primary government of the City as of June 30, 2013, and the respective changes in cash basis financial position for the year then ended in accordance the basis of accounting described in Note 1.

Basis of Accounting

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise City of Cherokee's basic financial statements. We previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the nine years ended June 30, 2012 (which are not presented herein) and expressed unqualified opinions on those financial statements which were prepared on the basis

of cash receipts and disbursements. The supplementary information included in Schedules 1 through 5 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The other information, budgetary comparison information on pages 23 through 25, has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 13, 2013 on our consideration of the City of Cherokee's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Cherokee's internal control over financial reporting and compliance.

Winters, Stone & Co., LLP

November 13, 2013

BASIC FINANCIAL STATEMENTS

CITY OF CHEROKEE
CASH BASIS STATEMENT OF ACTIVITIES AND NET POSITION
AS OF AND FOR THE YEAR ENDED JUNE 30, 2013

		Program Receipts		
	Disbursements	Charges for Service	Operating Grants and Contributions	Capital Grants and Contributions
FUNCTIONS/PROGRAMS:				
Governmental activities:				
Public safety	\$ 995,812	\$ 34,533	\$ 142,354	
Public works	1,237,272		738,107	
Culture and recreation	1,046,121	154,760	18,145	
Community and economic development	13,927			
General government	230,949			
Debt service	1,079,752			\$ 86,370
Capital projects	73,091			
Total governmental activities	<u>4,676,924</u>	<u>189,293</u>	<u>898,606</u>	<u>86,370</u>
Business-type activities:				
Water	550,506	880,960		
Sewer	1,069,945	1,033,778		
Landfill	339,855	360,174		
Solid waste	252,528	256,837		
Storm water	95,687	81,744		
Total business-type activities	<u>2,308,521</u>	<u>2,613,493</u>		
TOTAL	<u>\$6,985,445</u>	<u>\$2,802,786</u>	<u>\$ 898,606</u>	<u>\$ 86,370</u>
General Receipts and Transfers:				
Property and other City tax levied for:				
General purposes				
Debt service				
Local option sales tax				
Hotel/motel tax				
Tax increment financing				
Grants and contributions not restricted to specific purposes				
Unrestricted investment interest				
Bond proceeds				
Miscellaneous				
Transfers				
Total general receipts and transfers				
Change in cash basis net position				
Cash basis net position - beginning of year				
Cash basis net position - end of year				
Cash basis net position:				
Restricted:				
Nonexpendable:				
Cemetery perpetual care				
Expendable:				
Debt service				
Streets				
Employee benefits				
Other purposes				
Unrestricted				
Total cash basis net position				

Exhibit A

Net (Disbursement) Receipts and Changes in Cash Basis Net Position		
Governmental Activities	Business-Type Activities	Total
\$ (818,925)		\$ (818,925)
(499,165)		(499,165)
(873,216)		(873,216)
(13,927)		(13,927)
(230,949)		(230,949)
(993,382)		(993,382)
(73,091)		(73,091)
<u>(3,502,655)</u>		<u>(3,502,655)</u>
	\$ 330,454	330,454
	(36,167)	(36,167)
	20,319	20,319
	4,309	4,309
	<u>(13,943)</u>	<u>(13,943)</u>
	<u>304,972</u>	<u>304,972</u>
<u>(3,502,655)</u>	<u>304,972</u>	<u>(3,197,683)</u>
1,631,938		1,631,938
465,716		465,716
547,273		547,273
83,122		83,122
83,462		83,462
9,436		9,436
21,548	3,395	24,943
1,300,000		1,300,000
167,862	440	168,302
231,394	<u>(231,394)</u>	
<u>4,541,751</u>	<u>(227,559)</u>	<u>4,314,192</u>
1,039,096	77,413	1,116,509
<u>1,761,038</u>	<u>1,018,901</u>	<u>2,779,939</u>
<u>\$2,800,134</u>	<u>\$1,096,314</u>	<u>\$3,896,448</u>
\$ 134,874		\$ 134,874
158,227	\$ 37,805	196,032
1,819,256		1,819,256
141,008		141,008
349,595		349,595
<u>197,174</u>	<u>1,058,509</u>	<u>1,255,683</u>
<u>\$2,800,134</u>	<u>\$1,096,314</u>	<u>\$3,896,448</u>

See Notes to Financial Statements

CITY OF CHEROKEE
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND
CHANGES IN CASH BALANCES - GOVERNMENTAL FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2013

		Special Revenue		
	General	Road Use	Employee Benefits	Local Option Sales Tax
RECEIPTS:				
Property tax	\$1,055,635		\$576,303	
Tax increment financing				
Other city taxes	83,122			\$ 547,273
Licenses and permits	18,754			
Use of money and property	16,983		290	2,196
Intergovernmental	161,604	\$503,058		235,049
Charges for service	174,725			
Special assessments				
Miscellaneous	209,341	11,328	22,654	65,062
TOTAL RECEIPTS	<u>1,720,164</u>	<u>514,386</u>	<u>599,247</u>	<u>849,580</u>
DISBURSEMENTS:				
Operating:				
Public safety	713,202		282,610	
Public works		489,455	91,694	679,684
Culture and recreation	768,348		110,074	
Community and economic development	13,897			
General government	304,660		75,707	
Debt service				
Capital projects				
TOTAL DISBURSEMENTS	<u>1,800,107</u>	<u>489,455</u>	<u>560,085</u>	<u>679,684</u>
EXCESS (DEFICIENCY) OF RECEIPTS OVER (UNDER) DISBURSEMENTS	<u>(79,943)</u>	<u>24,931</u>	<u>39,162</u>	<u>169,896</u>
OTHER FINANCING SOURCES (USES):				
Bond proceeds				950,000
Operating transfers in	149,418	50,795	24,096	
Operating transfers out	(35,483)	(35,000)		(377,000)
TOTAL OTHER FINANCING SOURCES (USES)	<u>113,935</u>	<u>15,795</u>	<u>24,096</u>	<u>573,000</u>
CHANGE IN CASH BALANCES	33,992	40,726	63,258	742,896
CASH BALANCES (DEFICIT) - BEGINNING OF YEAR ..	<u>180,754</u>	<u>54,736</u>	<u>77,750</u>	<u>980,898</u>
CASH BALANCES (DEFICIT) - END OF YEAR	<u>\$ 214,746</u>	<u>\$ 95,462</u>	<u>\$141,008</u>	<u>\$1,723,794</u>
CASH BASIS FUND BALANCES:				
Nonspendable - cemetery perpetual care				
Restricted for:				
Debt service				
Streets		\$ 95,462		\$1,723,794
Employee benefits			\$141,008	
Other purposes				
Unassigned	<u>\$ 214,746</u>			
TOTAL CASH BASIS FUND BALANCE	<u>\$ 214,746</u>	<u>\$ 95,462</u>	<u>\$141,008</u>	<u>\$1,723,794</u>

Exhibit B

Capital Projects	Debt Service	Total Nonmajor Governmental Funds	Total
	\$ 465,716		\$2,097,654
		\$ 83,462	83,462
			630,395
			18,754
\$ 142	810	1,127	21,548
		4,145	903,856
			174,725
	86,370		86,370
<u>29,312</u>	<u>6,000</u>	<u>33,474</u>	<u>377,171</u>
<u>29,454</u>	<u>558,896</u>	<u>122,208</u>	<u>4,393,935</u>
			995,812
34,318			1,295,151
		167,699	1,046,121
30			13,927
	1,079,752		380,367
			1,079,752
		73,091	73,091
<u>34,348</u>	<u>1,079,752</u>	<u>240,790</u>	<u>4,884,221</u>
<u>(4,894)</u>	<u>(520,856)</u>	<u>(118,582)</u>	<u>(490,286)</u>
		350,000	1,300,000
55,483	546,597		826,389
		(147,512)	(594,995)
<u>55,483</u>	<u>546,597</u>	<u>202,488</u>	<u>1,531,394</u>
50,589	25,741	83,906	1,041,108
<u>(169,514)</u>	<u>132,486</u>	<u>400,563</u>	<u>1,657,673</u>
<u>\$ (118,925)</u>	<u>\$ 158,227</u>	<u>\$ 484,469</u>	<u>\$2,698,781</u>
		\$ 134,874	\$ 134,874
	\$ 158,227		158,227
			1,819,256
			141,008
		349,595	349,595
<u>\$ (118,925)</u>	<u> </u>	<u> </u>	<u>95,821</u>
<u>\$ (118,925)</u>	<u>\$ 158,227</u>	<u>\$ 484,469</u>	<u>\$2,698,781</u>

CITY OF CHEROKEE
 RECONCILIATION OF THE STATEMENT OF CASH RECEIPTS,
 DISBURSEMENTS, AND CHANGES IN CASH BALANCES
 TO THE CASH BASIS STATEMENT OF ACTIVITIES AND NET POSITION
 GOVERNMENTAL FUNDS
 AS OF AND FOR THE YEAR ENDED JUNE 30, 2013

TOTAL GOVERNMENTAL FUNDS CASH BALANCES (Page 8)	\$2,698,781
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Amounts reported for governmental activities in the Cash Basis Statement of Activities and Net Position are different because:

The Internal Service Fund is used by management to charge the costs of certain building replacements or improvements to individual funds. The cash balance of the Internal Service Fund is included in governmental activities in the Cash Basis Statement of Activities and Net Position.	<u>101,353</u>
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CASH BASIS NET POSITION OF GOVERNMENTAL ACTIVITIES (Page 6)	<u>\$2,800,134</u>
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CHANGE IN CASH BALANCES (Page 8)	\$1,041,108
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Amounts reported for governmental activities in the Cash Basis Statement of Activities and Net Position are different because:

The Internal Service Fund is used by management to charge the costs of certain building replacements or improvements to individual funds. The change in cash balance of the Internal Service Fund is reported with governmental activities in the Cash Basis Statement of Activities and Net Position.	<u>(2,012)</u>
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CHANGE IN CASH BASIS NET POSITION OF GOVERNMENTAL ACTIVITIES (Page 6)	<u>\$1,039,096</u>
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CITY OF CHEROKEE
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND
CHANGES IN CASH BALANCES - PROPRIETARY FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2013

	Enterprise Funds				Internal Service Fund Building Replacement
	Water	Sewer	Nonmajor	Total	
OPERATING RECEIPTS:					
Charges for service	\$955,393	\$1,163,207	\$698,755	\$2,817,355	
Use of money and property	2,217	585	593	3,395	\$ 260
Miscellaneous		440		440	10,001
TOTAL OPERATING RECEIPTS	<u>957,610</u>	<u>1,164,232</u>	<u>699,348</u>	<u>2,821,190</u>	<u>10,261</u>
OPERATING DISBURSEMENTS:					
Business-type activities	<u>624,939</u>	<u>813,242</u>	<u>688,070</u>	<u>2,126,251</u>	<u>12,273</u>
TOTAL OPERATING DISBURSEMENTS	<u>624,939</u>	<u>813,242</u>	<u>688,070</u>	<u>2,126,251</u>	<u>12,273</u>
EXCESS (DEFICIENCY) OF OPERATING RECEIPTS OVER (UNDER) OPERATING DISBURSEMENTS	<u>332,671</u>	<u>350,990</u>	<u>11,278</u>	<u>694,939</u>	<u>(2,012)</u>
NONOPERATING RECEIPTS (DISBURSEMENTS):					
Debt service		(386,132)		(386,132)	
TOTAL NONOPERATING RECEIPTS (DISBURSEMENTS)		<u>(386,132)</u>		<u>(386,132)</u>	
EXCESS (DEFICIENCY) OF RECEIPTS OVER (UNDER) DISBURSEMENTS	332,671	(35,142)	11,278	308,807	(2,012)
Transfers - net	<u>(113,008)</u>	<u>(112,939)</u>	<u>(5,447)</u>	<u>(231,394)</u>	
CHANGE IN CASH BALANCES	219,663	(148,081)	5,831	77,413	(2,012)
CASH BALANCES - BEGINNING OF YEAR	<u>720,789</u>	<u>71,749</u>	<u>226,363</u>	<u>1,018,901</u>	<u>103,365</u>
CASH BALANCES (DEFICIT) - END OF YEAR	<u>\$940,452</u>	<u>\$ (76,332)</u>	<u>\$232,194</u>	<u>\$1,096,314</u>	<u>\$101,353</u>
CASH BASIS FUND BALANCES:					
Restricted for debt service		\$ 37,805		\$ 37,805	
Unrestricted	<u>\$940,452</u>	<u>(114,137)</u>	<u>\$232,194</u>	<u>1,058,509</u>	<u>\$101,353</u>
TOTAL CASH BASIS FUND BALANCES	<u>\$940,452</u>	<u>\$ (76,332)</u>	<u>\$232,194</u>	<u>\$1,096,314</u>	<u>\$101,353</u>

CITY OF CHEROKEE
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND CHANGE IN CASH BALANCE
FIDUCIARY FUND
YEAR ENDED JUNE 30, 2013

	Agency Fund Cherokee Aviation Authority
CASH BALANCE (DEFICIT) - BEGINNING OF YEAR	\$ (263)
RECEIPTS:	
Property tax	17,542
Miscellaneous	<u>5,321</u>
TOTAL RECEIPTS	22,863
DISBURSEMENTS:	
To other governments	<u>22,600</u>
CASH BALANCE - END OF YEAR	<u>\$ 0</u>

NOTES TO FINANCIAL STATEMENTS

CITY OF CHEROKEE
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Cherokee, Iowa is a political subdivision of the State of Iowa located in Cherokee County. It was first incorporated in 1856 and operates under the Home Rule provisions of the Constitution of Iowa and under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, culture and recreation, community and economic development, and general government services. The City also provides various utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City is considered a primary government and has excluded the financial data of its component units, Cherokee Community Foundation and Cherokee Public Library Foundation. A primary government is a legal entity or body politic and includes all funds, organizations, institutions, agencies, departments, and offices that are not legally separate. A component unit is a legally separate entity for which the City is financially accountable. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City. Since these financial statements do not include the City's component units, they do not purport to be prepared in conformity with accounting principles generally accepted in the United States of America as they relate to the exclusion of the component units.

Cherokee Community Foundation and Cherokee Public Library Foundation are considered component units of the City of Cherokee since these entities provide fundraising activities to benefit programs and projects of the City. Financial statements of these entities are not separately prepared.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards: Cherokee County Joint E911 Service Board, Cherokee County Assessor's Conference Board, Cherokee County Solid Waste Commission, and Cherokee Aviation Authority. Financial transactions of these organizations are included in the City's financial statements only to the extent of the City's fiduciary relationship with the organization and, if applicable, are reported as an agency fund of the City.

B. Basis of Presentation

Government-Wide Financial Statements - The Cash Basis Statement of Activities and Net Position (previously referred to as net assets) reports information on all of the nonfiduciary activities of the primary government of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for services.

CITY OF CHEROKEE
NOTES TO FINANCIAL STATEMENTS - Continued

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

The Cash Basis Statement of Activities and Net Position presents the City's nonfiduciary net position. Net position is reported in three categories:

Nonexpendable restricted net position is subject to externally imposed stipulations which require the cash balance to be maintained permanently by the City, including the City's Permanent Fund.

Expendable restricted net position results when constraints placed on the use of cash balances are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net position consists of cash balances not meeting the definition of the preceding categories. Unrestricted net position often has constraints on cash balances imposed by management, which can be removed or modified.

The Cash Basis Statement of Activities and Net Position demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those that are clearly identifiable with a specific function. Program receipts include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants, contributions, and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements - Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental and proprietary funds are separately aggregated and reported as nonmajor governmental and proprietary funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts from general and emergency levies and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs not paid from other funds.

Special Revenue:

The Road Use Fund is used to account for the road use tax allocation from the State of Iowa to be used for road construction and maintenance.

The Local Option Sales Tax Fund is used to account for the local option sales tax allocation from the State of Iowa to be used for road construction.

The Employee Benefits Fund is used to account for the benefits provided employees which are financed by property taxes.

CITY OF CHEROKEE
NOTES TO FINANCIAL STATEMENTS - Continued

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

The Debt Service Fund is utilized to account for property tax and other receipts to be used for the payment of interest and principal on the City's general obligation debt.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

The City reports the following major proprietary funds:

The Enterprise, Water Fund accounts for the operation and maintenance of the City's water system.

The Enterprise, Sewer Fund accounts for the operation and maintenance of the City's wastewater treatment and sanitary sewer system.

The City also reports the following additional proprietary fund:

An Internal Service Fund is utilized to account for financing the replacement of damaged property not covered by insurance.

C. Measurement Focus and Basis of Accounting

The City of Cherokee maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with accounting principles generally accepted in the United States of America.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net position available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

When a disbursement in governmental funds can be paid using either restricted or unrestricted resources, the City's policy is generally to first apply the disbursement toward restricted fund balance and then to less-restrictive classifications - committed, assigned, and then unassigned fund balances.

Proprietary funds distinguish operating receipts and disbursements from nonoperating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as nonoperating receipts and disbursements.

CITY OF CHEROKEE
NOTES TO FINANCIAL STATEMENTS - Continued

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

D. Governmental Cash Basis Fund Balances

In the governmental fund financial statements, cash basis fund balances are classified as follows:

Nonspendable - Amounts which cannot be spent because they are legally or contractually required to be maintained intact.

Restricted - Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors, or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

Unassigned - All amounts not included in the preceding classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information. During the year ended June 30, 2013, disbursements exceeded the amounts budgeted in the debt service function.

F. Management's Review

Management has evaluated subsequent events through the date of the auditors' report, which is the date the financial statements were available to be issued.

2. CASH AND POOLED INVESTMENTS

The City's deposits in banks at June 30, 2013 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to ensure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-ended management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

Interest rate risk - The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the City.

Credit risk - The City did not have investments subject to risk categorization at June 30, 2013.

CITY OF CHEROKEE
NOTES TO FINANCIAL STATEMENTS - Continued

3. NOTES PAYABLE

Annual debt service requirements to maturity for general obligation and revenue notes are as follows:

Year Ending June 30,	General Obligation Notes		Revenue Notes		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2014	\$ 845,000	\$152,372	\$ 290,000	\$ 93,690	\$1,135,000	\$ 246,062
2015	880,000	134,039	299,000	84,990	1,179,000	219,029
2016	605,000	112,998	309,000	76,020	914,000	189,018
2017	515,000	97,770	319,000	66,750	834,000	164,520
2018	475,000	83,803	331,000	57,180	806,000	140,983
2019 - 2023	2,005,000	243,211	1,506,000	134,550	3,511,000	377,761
2024 - 2028	400,000	39,697	41,000	7,950	441,000	47,647
2029 - 2033			28,000	1,710	28,000	1,710
Total	<u>\$5,725,000</u>	<u>\$863,890</u>	<u>\$3,123,000</u>	<u>\$522,840</u>	<u>\$8,848,000</u>	<u>\$1,386,730</u>

The Code of Iowa requires that principal and interest on general obligation notes be paid from the Debt Service Fund.

Capital Lease Purchase Agreement

The City has entered into a capital lease purchase agreement to lease a dump truck and a tractor with historical costs of \$64,724 and \$19,331, respectively. The following is a schedule of the future minimum lease payments, including interest at a rate of 4% per annum.

<u>Year Ending June 30</u>	<u>Total</u>
2014	<u>\$ 10,266</u>
TOTAL	<u>\$ 10,266</u>

Revenue Notes

The City has pledged future sewer customer receipts net of specified operating disbursements to repay \$5,704,000 in sewer revenue notes issued in 1999, 2002, and 2011. Proceeds from the notes provided financing for sewer system improvements. The notes are payable solely from sewer customer net receipts and are payable through 2031. Annual principal and interest payments on the bonds are expected to require less than 80% percent of net receipts. The total principal and interest remaining to be paid on the notes is \$3,645,840. For the current year, principal and interest paid and total customer net receipts were \$386,132 and \$350,990, respectively.

CITY OF CHEROKEE
NOTES TO FINANCIAL STATEMENTS - Continued

3. NOTES PAYABLE - Continued

The resolutions providing for the issuance of sewer revenue notes include the following provisions:

- a. The notes will only be redeemed from the future earnings of the enterprise activity and the note holders retain a lien on the future earnings of the funds.
- b. Sufficient monthly transfers shall be made to separate revenue note sinking accounts within the Enterprise Funds for the purpose of making the note principal and interest payments when due.
- c. User rates shall be established at a level which produces and maintains net revenues at a level not less than 110% of the amount of principal and interest on the notes falling due in the same year.

At June 30, 2013, the balance of the bond and interest sinking fund is \$37,805. During the year ended June 30, 2013, the City was not in compliance with the user rate requirements of the revenue notes provisions.

4. PENSION AND RETIREMENT BENEFITS

The City contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, PO Box 9117, Des Moines, Iowa 50306-9117.

Most regular plan members are required to contribute 5.78% of their annual covered salary and the City is required to contribute 8.67% of covered payroll. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contribution to IPERS for the years ended June 30, 2013, 2012, and 2011 were \$138,379, \$125,650, and \$109,480, respectively, equal to the required contributions for each year.

5. OTHER POSTEMPLOYMENT BENEFITS (OPEB)

Plan Description - The City operates a single-employer retiree health plan which provides medical/prescription drug benefits for employee and retirees. There are no retired members in the plan. Eligible retirees receive health care coverage through the same plans that are available for active employees. Retired participants must be age 55 or older at retirement. Benefits terminate upon attaining Medicare eligibility.

The medical/prescription drug benefits are provided through a fully-insured plan with Wellmark. Retirees under age 65 pay the same premium for the medical/prescription drug benefits as active employees.

CITY OF CHEROKEE
NOTES TO FINANCIAL STATEMENTS - Continued

5. OTHER POSTEMPLOYMENT BENEFITS (OPEB) - Continued

Contributions are required for retiree coverage. The retiree contributions are based on and equal to the historical full cost of active members. Retiree expenses are then offset by retiree contributions.

Funding Policy - The contribution requirements of plan members are established and may be amended by the City. The city currently finances the retiree benefit plan on a pay-as-you-go basis. Depending on plan level selected, the most recent active member monthly premiums for the City and plan members range from \$392 for single coverage to \$1,203 for family coverage. The same monthly premiums apply to retirees. For the year ended June 30, 2013, the City made no contributions to the retiree benefit plan.

6. COMPENSATED ABSENCES

City employees meeting established criteria accumulate a limited amount of earned but unused vacation, compensatory time, and sick leave hours for subsequent use or for payment upon termination, retirement, or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation, compensatory time, and sick leave termination payments payable to employees at June 30, 2013, primarily relating to the General Fund, is \$281,322.

The liability for compensated absences has been computed based on rates of pay as of June 30, 2013.

7. LANDFILL CONTRACT

The solid waste disposal contract, which continues indefinitely, requires total annual payments of \$339,300 by the City. This amount is based on a percentage of total population within the county.

CITY OF CHEROKEE
NOTES TO FINANCIAL STATEMENTS - Continued

8. INTERFUND TRANSFERS

The detail of interfund transfers for the year ended June 30, 2013 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General	Proprietary: Water	\$ 74,433
	Proprietary: Sewer	69,538
	Proprietary: Solid waste	4,418
	Proprietary: Landfill	<u>1,029</u>
Total Transfers to General		<u>149,418</u>
Road Use	Proprietary: Sewer	35,795
	General	<u>15,000</u>
Total Transfers to Road Use		<u>50,795</u>
Employee Benefits	Proprietary: Sewer	<u>24,096</u>
Capital Projects	Special Revenue: Road Use	35,000
	General	<u>20,483</u>
Total Transfers to Capital Projects		<u>55,483</u>
Debt Service	Special Revenue: Local Option Sales Tax	377,000
	Special Revenue: Urban Renewal TIF	129,448
	Proprietary: Water	38,575
	Proprietary: Sewer	<u>1,574</u>
Total Transfers to Debt Service		<u>546,597</u>
Sewer	Special Revenue: Urban Renewal TIF	<u>18,064</u>
Total		<u>\$844,453</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

9. RELATED PARTY TRANSACTIONS

The City had business transactions between the City and City officials and employees, totaling \$125 during the year ended June 30, 2013.

CITY OF CHEROKEE
NOTES TO FINANCIAL STATEMENTS - Continued

10. RISK MANAGEMENT

The City of Cherokee is a member of the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 679 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine, and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses, and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained at a level determined by the Board not to exceed 300 percent of total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

The Pool also provides property coverage. Members who elect such coverage make annual operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses and reinsurance premiums, all of which are due and payable in the current year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.

The City of Cherokee's property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The City of Cherokee's annual contributions to the Pool for the year ended June 30, 2013 were \$126,355.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured in an amount not to exceed \$2,650,000 per claim. For members requiring specific coverage from \$3,000,000 to \$15,000,000, such excess coverage is also reinsured. Property and automobile physical damage risks are retained by the Pool up to \$250,000 each occurrence, each location, with excess coverage reinsured by Lexington Insurance Company.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event that a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. As of June 30, 2013, settled claims have not exceeded the risk pool or reinsurance company coverage since the pool's inception.

CITY OF CHEROKEE
NOTES TO FINANCIAL STATEMENTS - Continued

10. RISK MANAGEMENT - Continued

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days' prior written notice may withdraw from the Pool. Upon withdrawal, payments for all casualty claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Members withdrawing within the first six years of membership may receive a partial refund of their casualty capital contributions. If a member withdraws after the sixth year, the member is refunded 100% of its casualty capital contributions. However, the refund is reduced by the amount of capital distributions previously received by the withdrawing member and an amount equal to the annual casualty operating contribution which the withdrawing member would have made for the one-year period following withdrawal.

The City of Cherokee also carries commercial insurance purchased from other insurers for coverage associated with commercial property, workers' compensation, and lift station in flood area. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

11. LOAN RECEIVABLE

At June 30, 2013, the City had the following outstanding balance on a loan made from the Revolving Loan Fund as an effort to promote economic development and promote and retain jobs within the City:

American Natural Soy - \$21,956 loan on December 9, 2003, payable in 10 annual payments of \$2,442.64, including interest at 2%. \$ 2,394

12. DEFICIT FUND BALANCES

The following funds had a deficit balance at June 30, 2013:

<u>Fund</u>	<u>Deficit Balance June 30, 2013</u>	<u>Cause of Deficit</u>	<u>Plans to Eliminate Deficit</u>
Capital Projects Fund	\$118,925	Increase in expenditures	Increase revenues
Proprietary:			
Sewer	\$ 76,332	Increase in expenditures	Reduce spending
Solid waste	\$ 6,909	Increase in expenditures	Reduce spending

13. LITIGATION

The City is party to routine legal proceedings and litigation arising in the normal course of business. In the opinion of management, the outcome of such actions will have no material impact on the City's financial condition.

CITY OF CHEROKEE
NOTES TO FINANCIAL STATEMENTS - Continued

14. COMMITMENTS

At June 30, 2013, the City had construction contracts for the infrastructure projects totaling approximately \$477,854 of which approximately \$333,198 remained outstanding.

The City has been awarded a \$347,900 Community Development Block Grant (CDBG) for a housing rehabilitation program. The grant is for the rehabilitation of ten low-to-moderate income owner-occupied housing units within a target area in Cherokee city limits. The City is required to provide \$30,000 in matching funds. Grant funding will be expended as 5-year forgivable loans, with mortgage payback to be prorated if the home is vacated before the 5-year period is complete. At June 30, 2013, \$54,018 had been expended to two homeowners and for administrative costs.

15. SUBSEQUENT EVENTS

In August and September 2013, the City entered into construction contracts totaling \$817,115 for street and infrastructure projects.

OTHER INFORMATION

CITY OF CHEROKEE
BUDGETARY COMPARISON SCHEDULE OF
RECEIPTS, DISBURSEMENTS, AND CHANGES IN BALANCES -
BUDGET AND ACTUAL (CASH BASIS) - ALL GOVERNMENTAL FUNDS
AND PROPRIETARY FUNDS
OTHER INFORMATION (UNAUDITED)
YEAR ENDED JUNE 30, 2013

	Governmental Funds <u>Actual</u>	Proprietary Funds <u>Actual</u>	Less Funds not Required to be Budgeted
RECEIPTS:			
Property tax	\$2,097,654		
Tax increment financing collections	83,462		
Other city taxes	630,395		
Licenses and permits	18,754		
Use of money and property	21,548	\$ 3,655	\$ 260
Intergovernmental	903,856		
Charges for service	174,725	2,817,355	
Special assessments	86,370		
Miscellaneous	<u>377,171</u>	<u>10,441</u>	<u>10,001</u>
TOTAL RECEIPTS	<u>4,393,935</u>	<u>2,831,451</u>	<u>10,261</u>
DISBURSEMENTS:			
Public safety	995,812		
Public works	1,295,151		
Culture and recreation	1,046,121		
Community and economic development	13,927		
General government	380,367		
Debt service	1,079,752		
Capital projects	73,091		
Business-type activities		<u>2,524,656</u>	<u>12,273</u>
TOTAL DISBURSEMENTS	<u>4,884,221</u>	<u>2,524,656</u>	<u>12,273</u>
EXCESS (DEFICIENCY) OF RECEIPTS OVER (UNDER) DISBURSEMENTS	(490,286)	306,795	(2,012)
OTHER FINANCING SOURCES - NET	<u>1,531,394</u>	<u>(231,394)</u>	
EXCESS (DEFICIENCY) OF RECEIPTS AND OTHER FINANCING SOURCES OVER (UNDER) DISBURSEMENTS AND OTHER FINANCING USES	1,041,108	75,401	(2,012)
BALANCES - BEGINNING OF YEAR	<u>1,657,673</u>	<u>1,122,266</u>	<u>103,365</u>
BALANCES - END OF YEAR	<u>\$2,698,781</u>	<u>\$1,197,667</u>	<u>\$101,353</u>

<u>Total</u>	<u>Budgeted Amounts</u>		<u>Final to Total Variance</u>
	<u>Original</u>	<u>Final</u>	
\$2,097,654	\$2,074,123	\$2,074,123	\$ 23,531
83,462	83,612	83,612	(150)
630,395	820,129	820,129	(189,734)
18,754	16,330	16,330	2,424
24,943	9,598	9,598	15,345
903,856	848,172	1,284,647	(380,791)
2,992,080	2,873,383	3,062,333	(70,253)
86,370	68,000	68,000	18,370
<u>377,611</u>	<u>299,235</u>	<u>320,970</u>	<u>56,641</u>
<u>7,215,125</u>	<u>7,092,582</u>	<u>7,739,742</u>	<u>(524,617)</u>
995,812	1,047,373	1,062,208	66,396
1,295,151	1,375,109	1,375,109	79,958
1,046,121	1,110,558	1,464,201	418,080
13,927	3,000	16,442	2,515
380,367	370,881	670,881	290,514
1,079,752	1,079,452	1,079,452	(300)
73,091	142,028	142,028	68,937
<u>2,512,383</u>	<u>2,876,959</u>	<u>3,148,967</u>	<u>636,584</u>
<u>7,396,604</u>	<u>8,005,360</u>	<u>8,959,288</u>	<u>1,562,684</u>
(181,479)	(912,778)	(1,219,546)	1,038,067
<u>1,300,000</u>	<u> </u>	<u>342,000</u>	<u>958,000</u>
1,118,521	<u>\$ (912,778)</u>	<u>\$ (877,546)</u>	<u>\$1,996,067</u>
<u>2,676,574</u>			
<u>\$3,795,095</u>			

CITY OF CHEROKEE
NOTES TO OTHER INFORMATION - BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2013

The budgetary comparison is presented in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds, except internal service and agency funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, and business-type activities. Function disbursements required to be budgeted include disbursements for the general fund, special revenue funds, debt service fund, capital projects fund, and enterprise funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$953,928. This budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2013, disbursements exceeded the amount budgeted in the debt service function.

SUPPLEMENTARY INFORMATION

CITY OF CHEROKEE
SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS, AND
CHANGES IN CASH BALANCES
NONMAJOR GOVERNMENTAL FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2013

	<u>Special Revenue</u>		
	<u>Urban Renewal TIF</u>	<u>Revolving Loan</u>	<u>Library Memorial</u>
RECEIPTS:			
Tax increment financing	\$ 83,462		
Use of money and property		\$ 235	\$ 21
Intergovernmental			4,145
Miscellaneous		9,197	11,857
TOTAL RECEIPTS	<u>83,462</u>	<u>9,432</u>	<u>16,023</u>
DISBURSEMENTS:			
Operating:			
Culture and recreation			17,249
Capital projects	<u>73,091</u>		
TOTAL DISBURSEMENTS	<u>73,091</u>		<u>17,249</u>
EXCESS (DEFICIENCY) OF RECEIPTS OVER (UNDER) DISBURSEMENTS	<u>10,371</u>	<u>9,432</u>	<u>(1,226)</u>
OTHER FINANCING SOURCES (USES):			
Bond proceeds			
Operating transfers out	(147,512)		
TOTAL OTHER FINANCING SOURCES (USES)	<u>(147,512)</u>		
NET CHANGE IN CASH BALANCES	(137,141)	9,432	(1,226)
CASH BALANCES - BEGINNING OF YEAR	<u>137,141</u>	<u>91,526</u>	<u>7,402</u>
CASH BALANCES - END OF YEAR	<u>\$ 0</u>	<u>\$100,958</u>	<u>\$ 6,176</u>
CASH BASIS FUND BALANCES:			
Nonspendable - cemetery perpetual care			
Restricted for other purposes		\$100,958	\$ 6,176
TOTAL CASH BASIS FUND BALANCES	<u>\$ 0</u>	<u>\$100,958</u>	<u>\$ 6,176</u>

Schedule 1

<u>Parks & Recreation Capital Improvements</u>	<u>Permanent Oak Hill Perpetual Care</u>	<u>Total</u>
		\$ 83,462
\$ 534	\$ 337	1,127
		4,145
<u>9,077</u>	<u>3,343</u>	<u>33,474</u>
<u>9,611</u>	<u>3,680</u>	<u>122,208</u>
144,748	5,702	167,699
		73,091
<u>144,748</u>	<u>5,702</u>	<u>240,790</u>
<u>(135,137)</u>	<u>(2,022)</u>	<u>(118,582)</u>
350,000		350,000
		(147,512)
<u>350,000</u>		<u>(202,488)</u>
214,863	(2,022)	83,906
<u>27,598</u>	<u>136,896</u>	<u>400,563</u>
<u>\$242,461</u>	<u>\$134,874</u>	<u>\$484,469</u>
	\$134,874	\$134,874
<u>\$242,461</u>		<u>349,595</u>
<u>\$242,461</u>	<u>\$134,874</u>	<u>\$484,469</u>

CITY OF CHEROKEE
SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS, AND
CHANGES IN CASH BALANCES
NONMAJOR PROPRIETARY FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2013

	Enterprise Funds			
	<u>Landfill</u>	<u>Solid Waste</u>	<u>Storm Water</u>	<u>Total</u>
OPERATING RECEIPTS:				
Charges for service	\$360,174	\$256,837	\$ 81,744	\$698,755
Use of money and property	<u>20</u>	<u>573</u>	<u>593</u>	<u>593</u>
TOTAL OPERATING RECEIPTS	<u>360,194</u>	<u>256,837</u>	<u>82,317</u>	<u>699,348</u>
OPERATING DISBURSEMENTS:				
Business type activities	<u>339,855</u>	<u>252,528</u>	<u>95,687</u>	<u>688,070</u>
TOTAL OPERATING DISBURSEMENTS	<u>339,855</u>	<u>252,528</u>	<u>95,687</u>	<u>688,070</u>
EXCESS (DEFICIENCY) OF OPERATING RECEIPTS OVER (UNDER) OPERATING DISBURSEMENTS	20,339	4,309	(13,370)	11,278
NONOPERATING RECEIPTS:				
Transfers - net	<u>(1,029)</u>	<u>(4,418)</u>	<u>-----</u>	<u>(5,447)</u>
EXCESS (DEFICIENCY) OF RECEIPTS OVER (UNDER) DISBURSEMENTS	19,310	(109)	(13,370)	5,831
CASH BALANCES (DEFICIT) - BEGINNING OF YEAR	<u>4,806</u>	<u>(6,800)</u>	<u>228,357</u>	<u>226,363</u>
CASH BALANCES (DEFICIT) - END OF YEAR	<u>\$ 24,116</u>	<u>\$ (6,909)</u>	<u>\$214,987</u>	<u>\$232,194</u>
CASH BASIS FUND BALANCES:				
Unrestricted	<u>\$ 24,116</u>	<u>\$ (6,909)</u>	<u>\$214,987</u>	<u>\$232,194</u>
TOTAL CASH BASIS FUND BALANCES	<u>\$ 24,116</u>	<u>\$ (6,909)</u>	<u>\$214,987</u>	<u>\$232,194</u>

CITY OF CHEROKEE
SCHEDULE OF INDEBTEDNESS
YEAR ENDED JUNE 30, 2013

	<u>Date of Issue</u>	<u>Interest Rates</u>	<u>Amount of Original Issue</u>	<u>Balance Beginning of Year</u>
General Obligation Notes:				
Essential corporate purpose (aquatic center)	8-15-06	4.10 - 4.60%	\$ 400,000	\$ 220,000
Essential corporate purpose (fire rescue truck)	7-01-08	2.70 - 4.00%	595,000	380,000
Essential corporate purpose	6-01-09	1.35 - 4.125%	945,000	395,000
2010 refunding loan	3-10-10	.85 - 2.65%	2,830,000	1,615,000
2011 capital loan	4-01-11	1.50 - 3.55%	2,500,000	2,500,000
2011 urban renewal	12-08-11	3.50%	245,000	245,000
2012 capital loan	11-15-12	.85 - 1.95%	350,000	
2013 capital loan	6-27-13	1.10 - 3.35%	950,000	<u> </u>
TOTAL				<u>\$5,355,000</u>
Revenue Notes:				
Sewer	9-30-99	3.00%	\$2,170,000	\$1,200,000
Sewer	5-04-11	3.00%	144,000	139,000
Sewer	6-19-02	3.00%	3,390,000	<u>2,062,000</u>
TOTAL				<u>\$3,401,000</u>

Schedule 3

<u>Issued During Year</u>	<u>Redeemed During Year</u>	<u>Balance End of Year</u>	<u>Interest Paid</u>	<u>Interest Due and Unpaid</u>
	\$ 40,000	\$ 180,000	\$ 9,828	
	60,000	320,000	14,290	
	190,000	205,000	11,902	
	625,000	990,000	30,916	
		2,500,000	66,822	
	15,000	230,000	12,696	
\$ 350,000		350,000		
<u>950,000</u>	<u> </u>	<u>950,000</u>	<u> </u>	<u> </u>
<u>\$1,300,000</u>	<u>\$930,000</u>	<u>\$5,725,000</u>	<u>\$146,454</u>	<u>\$ </u>
	\$112,000	\$1,088,000	\$ 36,000	
	5,000	134,000	4,170	
<u> </u>	<u>161,000</u>	<u>1,901,000</u>	<u>61,860</u>	<u> </u>
<u>\$ </u>	<u>\$278,000</u>	<u>\$3,123,000</u>	<u>\$102,030</u>	<u>\$ </u>

CITY OF CHEROKEE
NOTE MATURITIES
JUNE 30, 2013

General Obligation Notes

<u>Miscellaneous Projects</u>						
Year Ending <u>June 30,</u>	<u>Issued 3-10-2010</u>		<u>Issued 8-15-2006</u>		<u>Issued 12-08-2011</u>	
	<u>Interest Rates</u>	<u>Amount</u>	<u>Interest Rates</u>	<u>Amount</u>	<u>Interest Rates</u>	<u>Amount</u>
2014	1.85%	\$ 440,000	4.40%	\$ 40,000	3.50%	\$ 20,000
2015	2.25%	450,000	4.45%	45,000	3.50%	25,000
2016	2.65%	100,000	4.50%	45,000	3.50%	25,000
2017			4.60%	50,000	3.50%	25,000
2018					3.50%	25,000
2019					3.50%	25,000
2020					3.50%	25,000
2021					3.50%	30,000
2022					3.50%	30,000
2023						
2024						
2025						
2026						
2027						
2028						
TOTAL		<u>\$ 990,000</u>		<u>\$180,000</u>		<u>\$230,000</u>

<u>Miscellaneous Projects</u>						
Year Ending <u>June 30,</u>	<u>Issued 4-01-2011</u>		<u>Issued 11-15-2012</u>		<u>Issued 6-27-2013</u>	
	<u>Interest Rates</u>	<u>Amount</u>	<u>Interest Rates</u>	<u>Amount</u>	<u>Interest Rates</u>	<u>Amount</u>
2014	1.50%	\$ 225,000	.85%	\$ 30,000		
2015	1.90%	230,000	.85%	35,000		
2016	2.10%	235,000	.85%	35,000	1.10%	\$ 65,000
2017	2.40%	240,000	1.25%	35,000	1.10%	65,000
2018	2.60%	245,000	1.25%	35,000	1.60%	65,000
2019	2.80%	250,000	1.25%	35,000	1.60%	70,000
2020	3.00%	255,000	1.95%	35,000	2.10%	70,000
2021	3.15%	265,000	1.95%	35,000	2.10%	70,000
2022	3.30%	275,000	1.95%	35,000	2.50%	70,000
2023	3.55%	280,000	1.95%	40,000	2.50%	75,000
2024					2.85%	75,000
2025					2.85%	80,000
2026					3.35%	80,000
2027					3.35%	80,000
2028					3.35%	85,000
TOTAL		<u>\$2,500,000</u>		<u>\$350,000</u>		<u>\$950,000</u>

Schedule 4

Miscellaneous Projects			
Issued 7-01-2008		Issued 6-01-2009	
Interest Rates	Amount	Interest Rates	Amount
3.55%	\$ 60,000	3.00%	\$ 30,000
3.70%	60,000	3.30%	35,000
3.85%	65,000	3.50%	35,000
3.95%	65,000	3.75%	35,000
4.00%	70,000	4.00%	35,000
		4.125%	35,000
<u>\$320,000</u>		<u>\$205,000</u>	

<u>Total</u>
\$ 845,000
880,000
605,000
515,000
475,000
415,000
385,000
400,000
410,000
395,000
75,000
80,000
80,000
80,000
85,000
<u>\$5,725,000</u>

CITY OF CHEROKEE
NOTE MATURITIES - Continued
JUNE 30, 2013

Revenue Notes

Year Ending <u>June 30,</u>	<u>Sewer Issued 9-30-99</u>		<u>Sewer Issued 6-19-02</u>		<u>Sewer Issued 5-24-11</u>	
	<u>Interest Rates</u>	<u>Amount</u>	<u>Interest Rates</u>	<u>Amount</u>	<u>Interest Rates</u>	<u>Amount</u>
2014	3.00%	\$ 118,000	3.00%	\$ 166,000	3.00%	\$ 6,000
2015	3.00%	122,000	3.00%	171,000	3.00%	6,000
2016	3.00%	127,000	3.00%	176,000	3.00%	6,000
2017	3.00%	132,000	3.00%	181,000	3.00%	6,000
2018	3.00%	138,000	3.00%	187,000	3.00%	6,000
2019	3.00%	144,000	3.00%	192,000	3.00%	7,000
2020	3.00%	150,000	3.00%	198,000	3.00%	7,000
2021	3.00%	157,000	3.00%	204,000	3.00%	7,000
2022			3.00%	210,000	3.00%	7,000
2023			3.00%	216,000	3.00%	7,000
2024					3.00%	8,000
2025					3.00%	8,000
2026					3.00%	8,000
2027					3.00%	8,000
2028					3.00%	9,000
2029					3.00%	9,000
2030					3.00%	9,000
2031					3.00%	10,000
TOTAL		<u>\$1,088,000</u>		<u>\$1,901,000</u>		<u>\$134,000</u>

Schedule 4

<u>Total</u>
\$ 290,000
299,000
309,000
319,000
331,000
343,000
355,000
368,000
217,000
223,000
8,000
8,000
8,000
8,000
9,000
9,000
9,000
<u>10,000</u>
<u><u>\$3,123,000</u></u>

CITY OF CHEROKEE
SCHEDULE OF RECEIPTS BY SOURCE AND DISBURSEMENTS BY FUNCTION
ALL GOVERNMENTAL FUNDS
FOR THE LAST TEN YEARS

	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
RECEIPTS:				
Property and other city tax	\$2,728,049	\$2,671,560	\$2,649,433	\$2,582,070
Tax increment financing	83,462	248,846	187,847	280,549
Licenses and permits	18,754	18,514	16,584	15,669
Use of money and property	21,548	27,010	37,982	46,864
Intergovernmental	903,856	927,271	538,638	523,803
Charges for service	174,725	178,401	160,338	175,524
Special assessments	86,370	171,151	17,224	17,242
Miscellaneous	<u>377,171</u>	<u>731,882</u>	<u>502,466</u>	<u>490,343</u>
 TOTAL RECEIPTS	 <u>\$4,393,935</u>	 <u>\$4,974,635</u>	 <u>\$4,110,512</u>	 <u>\$4,132,064</u>
 DISBURSEMENTS:				
Public safety	\$ 995,812	\$1,022,695	\$1,256,542	\$ 853,192
Public works	1,295,151	2,784,091	658,880	826,921
Culture and recreation	1,046,121	1,153,249	790,994	775,285
Community and economic development	13,927	27,632	9,349	4,920
General government	380,367	373,893	341,621	332,516
Debt service	1,079,752	1,604,978	1,518,384	1,526,802
Capital projects	<u>73,091</u>	<u>207,874</u>	<u>764,547</u>	<u>18,543</u>
 TOTAL DISBURSEMENTS	 <u>\$4,884,221</u>	 <u>\$7,174,412</u>	 <u>\$5,340,317</u>	 <u>\$4,338,179</u>

<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
\$2,261,960	\$2,206,233	\$2,135,270	\$2,115,269	\$1,980,336	\$2,073,806
218,619	202,182	205,308	170,779	221,297	203,467
26,537	28,364	25,777	27,469	25,519	27,128
97,953	132,896	163,893	193,391	133,901	88,240
765,607	567,671	887,099	487,336	528,684	1,184,756
140,477	171,005	101,431	59,620	69,978	82,648
18,272	36,770	25,830	52,077	225,640	24,633
<u>521,807</u>	<u>679,773</u>	<u>1,358,900</u>	<u>567,434</u>	<u>370,588</u>	<u>1,204,605</u>
<u>\$4,051,232</u>	<u>\$4,024,894</u>	<u>\$4,903,508</u>	<u>\$3,673,375</u>	<u>\$3,555,943</u>	<u>\$4,889,283</u>
\$1,345,016	\$ 870,531	\$ 922,236	\$ 935,557	\$ 842,842	\$ 825,650
665,083	761,497	738,554	486,313	629,256	475,612
757,638	1,345,196	680,192	909,802	686,449	672,576
1,641	12,361	635	1,777	6,944	99,075
345,061	230,641	303,901	295,914	285,331	288,555
2,113,371	1,283,427	983,395	1,192,475	2,161,195	4,033,976
<u>291,658</u>	<u>139,788</u>	<u>3,032,922</u>	<u>211,407</u>	<u>169,650</u>	<u>2,984,197</u>
<u>\$5,519,468</u>	<u>\$4,643,441</u>	<u>\$6,661,835</u>	<u>\$4,033,245</u>	<u>\$4,781,667</u>	<u>\$9,379,641</u>

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INDEPENDENT AUDITORS' REPORT ON
INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

The Honorable Mayor and
Members of the City Council
City of Cherokee
Cherokee, IA 51012

We have audited in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of the primary government of the City of Cherokee, Iowa, as of and for the year ended June 30, 2013, and the related notes to financial statements, which collectively comprise the basic financial statements of the City's primary government, and have issued our report thereon dated November 13, 2013. Our report expressed unmodified opinions on the primary government financial statements which were prepared on the basis of cash receipts and disbursements, a basis of accounting other than accounting principles generally accepted in the United States of America.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered City of Cherokee's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings, we identified a deficiency in internal control we consider to be a material weakness.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the City's financial statements will not be prevented or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in Part I of the accompanying Schedule of Findings as Item I-A-13 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Cherokee's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2013 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

City of Cherokee's Responses to Findings

The City's responses to findings identified in our audit are described in the accompanying Schedule of Findings. The City's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Cherokee during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Wintner, Starnes Co., LLP

November 13, 2013

CITY OF CHEROKEE
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2013

Part I: Findings Related to the Financial Statements

Internal Control Deficiency:

I-A-13 Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that custody of receipts, preparation of bank deposits, and posting of cash receipts to the cash receipts journal can be done by the same individual.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - We will consider our control procedures.

Conclusion - Response accepted.

Instances of Non-Compliance:

No matters were noted.

CITY OF CHEROKEE
SCHEDULE OF FINDINGS - Continued
YEAR ENDED JUNE 30, 2013

Part II: Other Findings Related to Statutory Reporting

- II-A-13 Certified Budget - Disbursements during the year ended June 30, 2013 exceeded the amounts budgeted in the debt service function. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

Recommendation - The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response - The budget will be amended in the future, if applicable.

Conclusion - Response accepted.

- II-B-13 Questionable Disbursements - No disbursements were noted that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

- II-C-13 Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

- II-D-13 Business Transactions - Business transactions between the City and City officials or employees are detailed as follows:

<u>Name, Title, and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Duane Mummert, Park Superintendent	Work done at Yacht Club	\$ 125

In accordance with Chapter 362.5(3)(j) of the Code of Iowa, the transaction with the City official does not appear to represent a conflict of interest since the total transaction was less than \$1,500 during the fiscal year.

- II-E-13 Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

- II-F-13 Council Minutes - No transactions were found that we believe should have been approved in the Council minutes but were not.

CITY OF CHEROKEE
SCHEDULE OF FINDINGS - Continued
YEAR ENDED JUNE 30, 2013

Part II: Other Findings Related to Statutory Reporting - Continued

II-G-13 Deposits and Investments - No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy were noted.

II-H-13 Revenue Notes - The City did not comply with sewer revenue note user rate resolutions.

Recommendation - The City should establish user rates at a level which will result in net revenues sufficient to meet the note resolution requirements.

Response - The budget established for FY2013 establishes user rates sufficient to satisfy net revenue requirements.

Conclusion - Response accepted.

II-I-13 Urban Renewal Annual Report - The urban renewal annual reports for FY2012 and FY2013 were approved and certified to the Iowa Department of Management on or before December 1, 2012 and 2013, respectively. However, the following exceptions were noted:

- The City's ending cash balances of the Special Revenue, Urban Renewal Tax Increment Financing (TIF) Fund reported on the FY2012 Levy Authority Summary did not agree with the City's general ledger.
- Several variances were noted between the activity for the Special Revenue, Urban Renewal TIF Fund reported on the Levy Authority Summary and in the annual audited financial statements for both FY 2012 and FY2013.
- The amount reported by the City as TIF debt outstanding was understated on the FY2012 and FY2013 Levy Authority Summary by \$330,421 and \$130,851, respectively.

Recommendation - The City should ensure the cash balances, annual activity, and debt amounts reported on the Levy Authority Summary agree with the City's records for the Special Revenue, Urban Renewal TIF Fund.

Response - These items will be corrected on next year's report.

Conclusion - Response accepted.

CITY OF CHEROKEE
SCHEDULE OF FINDINGS - Continued
YEAR ENDED JUNE 30, 2013

Part II: Other Findings Related to Statutory Reporting - Continued

II-J-13 Financial Condition - The Capital Projects, Proprietary, Sewer and Proprietary, Solid Waste funds had deficit balances at June 30, 2013.

Recommendation - The City should investigate alternatives to eliminate these deficits in order to return these accounts to a sound financial position.

Response - The deficits are expected to be eliminated as follows:

Capital Projects	Increase revenues
Proprietary, Sewer	Reduce spending
Proprietary, Solid Waste	Reduce spending

Conclusion - Response accepted.